

KDB Asia Limited

Table MRA: Qualitative disclosures related to market risk

31 December 2017

Market risks refer to possible losses to the Company's assets resulting from fluctuations of interest rates, stock prices, foreign exchange rates and other variables. Possible losses in trading positions (including positions of securities and derivatives being held for the purpose of acquiring short-term profit margins) is measured and managed, due to negative movements of market indices. Stress tests is also conducted to measure the potential scale of losses based on scenarios of wide fluctuations in major market indices over the last three years and the 2008 financial crisis. Moreover, by classifying the severity of market movements into three stages - precautionary, semi-crisis and crisis stages - in accordance with the degree of fluctuation of standard indices, market risk contingency plans are well maintained appropriate to each of the three stages.

Identifying Market Risk- Data from both internal and external sources is gathered and analyzed. Permissible instruments or instrument-types are identified as well as the activities for which the Company intends to use them. Permissible credit quality, market risk sensitivity and liquidity characteristics are also identified in the policies and procedures of the appropriate departments of the Company.

Monitoring Market Risk - In order to measure the Company's market risk, timely information about the current carrying and market values of its securities and derivatives is required. Therefore, the Company has a measurement system(s) capable of providing information based on the size, nature, and complexity of its holdings. It has capability to evaluate the market risk exposures of its investment and derivative holdings and report this information to the Management and the RMC at least monthly. Where internal models are used to measure risk, adequate procedures to validate the models and periodically review all elements of the modeling process including assumptions and risk-modeling techniques are applied. Market risk reports are addressed potential exposure to yield curve changes and other factors pertinent to the Company's holdings. Complex and illiquid instruments involve more market risk than broadly traded more liquid securities. For such holdings, the Company has a documented process for stress testing the instruments values and liquidity assumptions under a variety of market scenarios.

Controlling Market Risk-The RMC reviews monthly, or more often as needed, reports that provide information enabling the RMC to assess the sensitivity of the Company's portfolio to changes in market prices and rates and other important risk factors. In addition, back office, settlement and transaction reconciliation responsibilities are to be conducted and managed by personnel who are independent of those initiating risk-taking positions.

The Company has formulated market risk management policy to identify, measure, monitor, control, and report on the market risk, where appropriate, to allocate adequate capital to cover those risks. The market risk management policy and control limits are approved by the Board and are monitored and regularly reviewed to align with market changes, statutory requirements, and best practices in risk management processes.

For reporting of market risk, risk reporting for trading book positions is compiled and monitored on a daily basis. Besides, risk reports are prepared for different level of governance on a regular basis.